Critical illness insurance gaining mass appeal

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Verified claims provide a lump sum, tax-free payout that can cover costs and hidden expenses that can add up quickly, says Brian Henderson, regional vice-president, field sales, Western Canada, at RBC Insurance Services Inc.

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Critical illness (CI) insurance is gaining prominence slowly but surely as more and more Canadians become aware of the flexibility the coverage provides and more companies make CI part of their employee group health benefits plans.

"CI [insurance] is becoming a legitimate benefit [because] it's designed to be something that helps you maintain your financial health while you go through a critical illness," says Neil Paton, president and chief executive officer at Newmarket, Ont.-based Edge Benefits Inc., which specializes in offering living benefits insurance to Canadians.

CI insurance covers a specific list of life-altering and life-threatening conditions, ranging from cancer to heart attacks and strokes to multiple sclerosis to blindness and major organ transplants, among others.

Verified claims provide a lump sum, tax-free payout that can cover costs such as drugs not paid for by provincial or employee benefit plans, plane tickets to bring family members closer, the cost of a television in a hospital room and other "hidden expenses" that can add up quickly, says Brian Henderson, regional vice- president, field sales, Western Canada, at RBC Insurance Services Inc. in Calgary.

"When you think about the things that you weren't expecting, especially when you have a critical illness, you need to have adequate coverage to pay for things without having to dip into your savings," says Mr. Henderson.

Although CI coverage is aimed mostly at adults, a growing number of insurers now also offer CI coverage for children. The coverage not only looks after the child's needs, but can also provide cash flow to parents – at least one of whom needs to take time off from work to look after the ill child.

The flexibility that CI provides is one of the main reasons why the product is gaining traction and being included in some employee benefit plans, says Heather Freed, an independent insurance advisor in Toronto. However, one of the big issues surrounding CI is that some people often get confused about what the product is. Thus, it's critical financial advisors help people understand exactly what they're getting – and what they're not – with CI coverage, she adds.

Ms. Freed tells the story of an advisor who thought he had covered off everything very carefully when he sold a CI policy to a client. Sometime after the policy was sold, the client caught a bad flu and was off work for two weeks. He believed that because he wasn't paid for lost time, he could claim it on his CI policy.

"Obviously that wasn't what [CI insurance] was designed to do, but [the client] sued," she says. "The case went on and on and eventually got settled out of court. This was a perfect example of people not understanding what they're buying."

To counter these situations ahead of time, insurance companies want advisors to conduct a full financial needs analysis before they even determine whether the client qualifies for CI coverage.

Mr. Henderson suggests Canadians, in general, and business owners, in particular, look at getting some combination of life and CI insurance that they both need and can afford.

For example, RBC Insurance's CI products can cover more than 30 illnesses and conditions, provide for a choice of premium and term options, while the lump-sum benefits can range from $25,000 to $2-million.

Meanwhile, Edge Benefits has introduced guaranteed issue CI coverage, just recently doubling the product's maximum lump-sum benefit to $50,000 from $25,000. Mr. Paton says applications for regular CI policies, in general, can take months to be approved and underwriters reject 40 per cent to 50 per cent of those who apply for CI coverage. He adds that the earlier a person looks for CI coverage, the better.

"The ability for clients to qualify for critical illness [coverage] and the price for it is likely going to be better when [people] are younger," he says. "If you think about how these types of products are underwritten [in the general insurance industry], the client may have to include information such as their family's [medical] history as well as their own [medical] history. The younger you are the less chance of these events."

For advisors, talking about CI and other living benefits insurance with clients is key not only to ensure Canadians get the appropriate coverage they need, but to protect their long-term savings. For example, Tina Tehranchian, branch manager and senior wealth advisor at Assante Capital Management Ltd. in Richmond Hill, Ont., says she always evaluates a client's portfolio for different risks, including premature death, critical illness, long-term disability and long-term care when they come to see her.

"The only way to do that is to stress-test a financial plan," she says. "If [clients] were to find out that they have a critical illness and need $100,000 or $200,000, what is the impact going to be? Once people see that in black and white, it's tough to argue with."

Jeanette Brox, senior financial consultant at Investors Group Inc. in Toronto, says she often hears from clients whose parents have died at an early age, usually from cancer, heart disease or stroke, which are collectively responsible for more than half the deaths in Canada. Not surprising, these clients are usually the most receptive to CI insurance because they've seen the impact that not having it has on their families.

Says Ms. Brox: "Every day, my eyes are wide open to the issues people can face without proper insurance."